

**PRESQUE ISLE DISTRICT LIBRARY**

**Financial Statements  
For the Year Ended December 31, 2006**

**JOHNSON & SCHULZE PC**

PRESQUE ISLE DISTRICT LIBRARY  
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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PRESQUE ISLE DISTRICT LIBRARY	County PRESQUE ISLE
Fiscal Year End 12/31/06	Opinion Date 5/25/07	Date Audit Report Submitted to State 6/14/07	

We affirm that

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations)

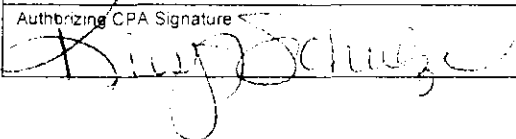
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) JOHNSON & SCHULZE PC		Telephone Number (989) 354-8707	
Street Address 139 W. WASHINGTON AVENUE		City ALPENA	State MI
Zip 49707			
Authorizing CPA Signature 	Printed Name KRISTY SCHULZE CPA	License Number 1101025896	

## INDEPENDENT AUDITORS' REPORT

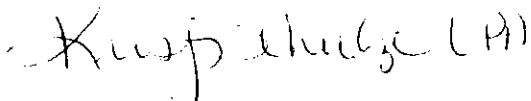
Board of Directors  
Presque Isle District Library  
Rogers City, Michigan

We have audited the accompanying statement of financial position of the Presque Isle District Library, (herein referred to as the Library), as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2006, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Library taken as a whole. Information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we do not express an opinion on them.



**Johnson & Schulze PC**  
Alpena, Michigan

May 25, 2007

**Presque Isle District Library**  
**Management's Discussion and Analysis/Fiscal Year 2006**  
To auditor: June 04, 2007

**Using this Annual Report:**

This annual report consists of three parts, including *Management's Discussion and Analysis*, the *Basic Financial Statements*, and *Required Supplementary Information*.

- The financial statements will be comparative with the prior years financials. (2004) *Management's Discussion and Analysis* will also use comparisons, in order to more clearly explain the financial state of the Library.
- An independent auditor audits Presque Isle District Library each fiscal year, thus, the financial portion of this report will be independent, with additional comments provided by management in this section.
- Charts and graphs will be included in this year's MD&A.

**The Library as a Whole:**

This section of the MD&A will include the elements such as *a brief discussion of the basic financial statements; analysis of the library's overall financial position and results of operations; analysis of significant budget variations; and discussion of currently know facts, decisions, or conditions affecting the Library.*

- The Library has 3 branches in addition to the administrative location and can be classified as moderate in size.
- Circulation has increased moderately this year and Technology has been updated according to the Technology plan and to replace equipment that has failed. Seven computers were replaced in 2006. Two additional were laptops replacing two mobile lab units, one desktop replacing a public computer and four computers replacing old equipment one of which was placed at each location. Computer classes still being held on a regular basis throughout the year at all locations and have been attended well.
- Revenue is obtained through state aid, penal fines, local government revenues, interest revenues, local donations and bequests, material fines and lost book charges and government and/or private grants.
- Local government revenues in the form of a .75 assessed mill, provides 65% of the library revenues compared to 74% from the previous year. An additional .25 mill was voted and assessed in 2006, however, this will not be payable until 2007. Public and business support for the Library continues to improve and the Library has again increased its outreach to, and collaboration with, the communities and organizations within the District.
- There was a significant cut in direct State aid which down by about \$2,300 from 2005.
- Adding to this, Penal fines, down an additional \$3,000 in 2006 compared to 2005 which leaves an overall decrease in the area of State aid around 10% from 2005.
- Overall income was up almost \$46,000 from the previous year due to a large private donation of \$40,250 and increased interest earnings. There were again no layoffs, however, some hours were cut near the end of the year and spending was closely guarded in order to meet budget limitations.

- Salary expense was up almost around 5% due to salary increases. There were no significant changes.
- There was no long-term debt incurred in 2006.
- The Library remains in excellent financial shape even though travel costs, utilities and other expenses are up slightly. Programming continued at about the same level as the previous year, again thanks to local support and Grants. Local donations overall remain strong and local businesses in fact have been generous in 2006.

### **Individual Fund and Account Analysis**

#### **Checking Account**

- This account shows a balance of \$49,579.88. Cash flow was strong but the materials budget was cut somewhat in order to free up cash flow for a payday in the first week of January 2007. There was again a slight delay in paying some bills as \$40,250 of the \$49,580 was restricted for the Grand Lake location. The delay, however, was not as significant as last year.

#### **Johnson Bequest Fund**

- A significant change in this account is due to a land purchase in the Grand Lake area, to accommodate a new library, anticipated to be constructed in 2007. This balance of this account was transferred to a CD in order to earn a higher interest rate.
- This fund is the result of a bequest made by a local resident who left a considerable sum of money to the library with restricted usage. No operational expenses can be paid with this money. It has been and can be used for education, books or other materials, shelving, furniture and equipment, and building or building improvements.
- Year-end balance was \$149,195.48.

#### **Henry & Margaret Hoffman Fund**

- This fund was created as the result of a bequest made by a local resident who left close to \$90,000 to the Library.
- The Year-end balance of this account is \$99,742.47, which has been increased due to earned interest.

#### **Accounts Receivable**

- This account shows a balance of \$6,258.00 which had been received late in the year, but not deposited until after the year end. This amount was a grant Gates Foundation Grant for new computers which will be reported in the 2007 MD & A.

#### **Petty Cash Account**

- This fund is \$50 at the year-end, as it should be. All expenses were accounted for by receipt (see audit). Mostly used for mailing packages or small emergency purchases. No change.

#### **Liabilities & Equity**

- Fixed assets remain virtually the same.
- There are currently no long-term liabilities.

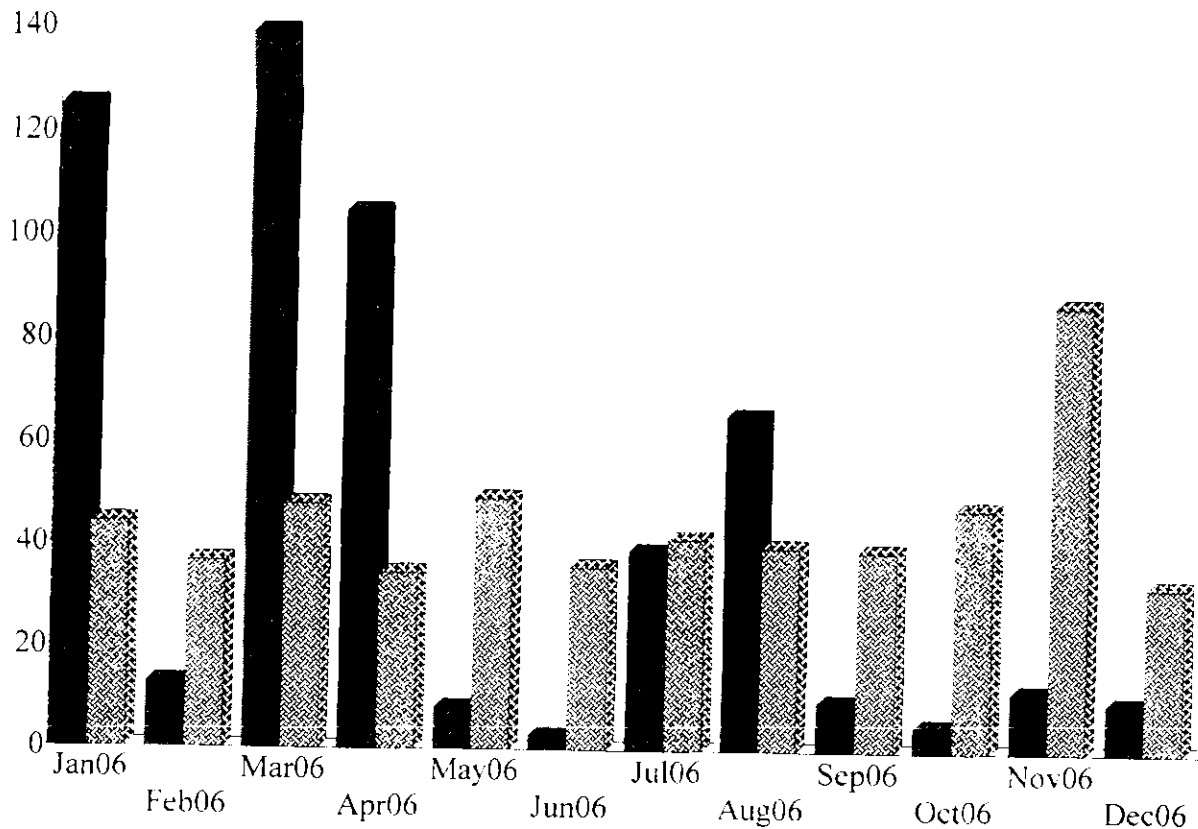
**Respectfully submitted,**

*Janis K. Stevenson, Director*

# Income and Expense by Month January through December 2006

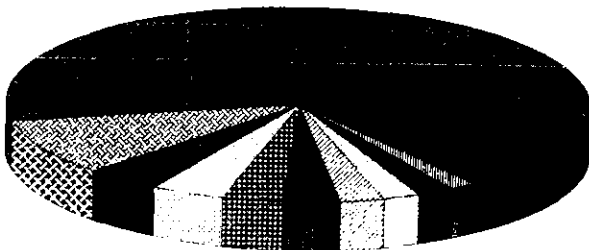
■ Income  
▨ Expense

\$ in 1,000's



## Expense Summary January through December 2006

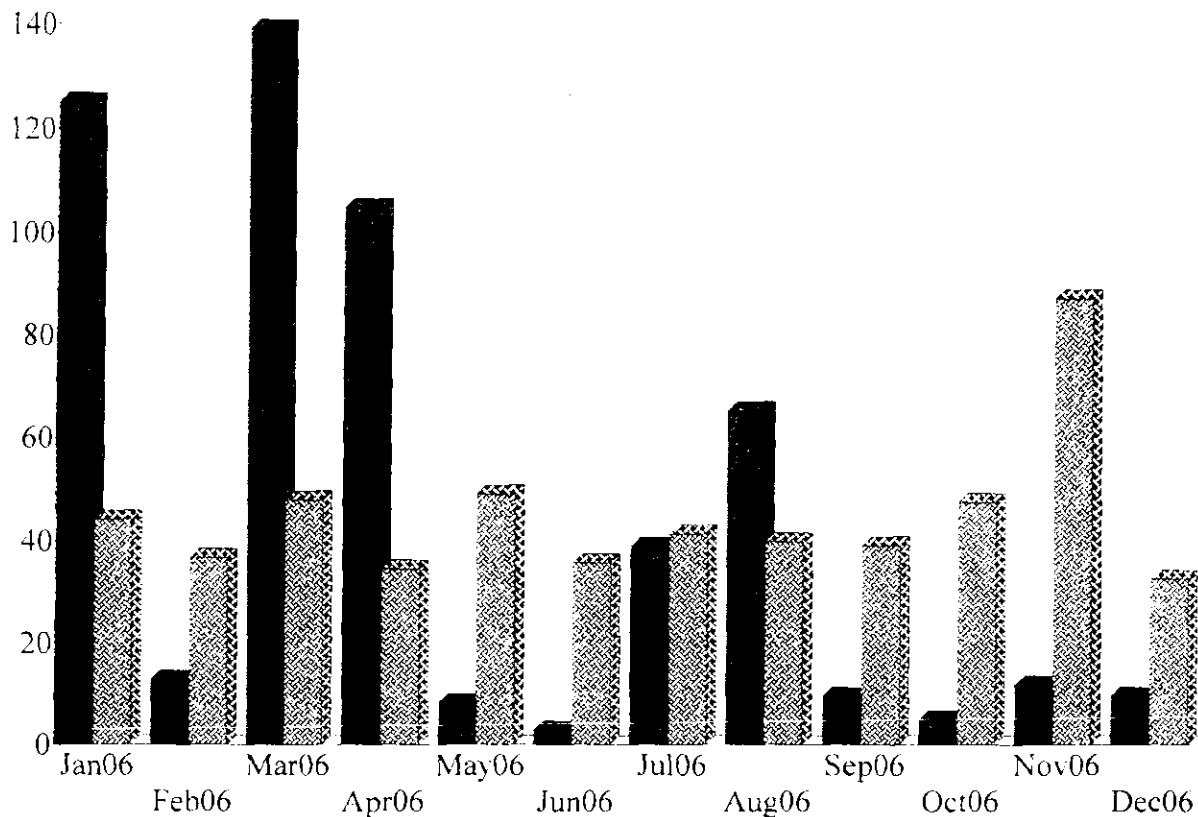
■ 500 · Payroll Expenses-taxes	%53.57
▨ 580.1 · Land & Land Improv.- Johnson B.	9.28
■ 535 · Rent to Private Landlord	4.17
▨ 520 · Book Purchases	4.13
▨ 548 · Miscellaneous Operating Expense	3.36
■ 538 · Utilities	3.28
▨ 534 · Maintenance of Equipment	2.45
▨ 542 · Public Relations/Library Prog.	2.19
■ 529 · Juvenile Materials	2.18
▨ 532 · Computer Related Equip/Supplies	1.66
■ Other	13.73
Total	\$535,805.90



# Income and Expense by Month January through December 2006

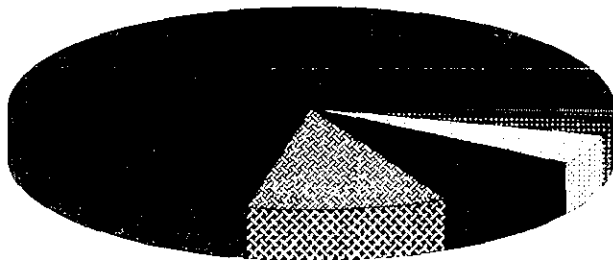
Income  
Expense

\$ in 1,000's



## Income Summary January through December 2006

420 · Local Government Revenues	%71.68
410 · State Aid	10.72
450 · Donations and Other Gifts	8.69
430 · Interest Revenue	4.85
451 · Grant Revenue	2.42
453 · Fines	0.77
456 · Other Charges and Property Rent	0.39
454 · Lost Book Charges	0.21
457 · Miscellaneous Revenue	0.15
440 · Sale of Merchandise	0.11
Total	\$532,767.78





**PRESQUE ISLE DISTRICT LIBRARY**  
**Governmental Funds**  
**Balance Sheet/Statement of Net Assets**

**FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2006**

	General Fund Modified Accrual Basis	Adjustments (Note 7)	Statement of Net Assets
<b>ASSETS</b>			
Cash and investments (Notes 2 & 4)	\$ 308,323	\$ -	\$ 308,323
Fixed assets (Notes 2 & 5)	-	929,349	929,349
Total assets	<u>\$ 308,323</u>	<u>\$ 929,349</u>	<u>\$ 1,237,672</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	6,238	-	6,238
Total liabilities	<u>6,238</u>	<u>-</u>	<u>6,238</u>
<b>FUND BALANCE / NET ASSETS</b>			
Fund Balance - Unreserved			
Designated for capital improvement	141,456	(141,456)	-
Undesignated	160,629	(160,629)	-
Total fund balance	<u>302,085</u>	<u>(302,085)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 308,323</u>		
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt		929,349	929,349
Restricted for donor-restricted purpose		141,456	141,456
Unrestricted		160,629	160,629
Total net assets		<u>\$ 929,349</u>	<u>\$ 1,237,672</u>

The accompanying notes are an integral part of the financial statements.

**PRESQUE ISLE DISTRICT LIBRARY**  
**Statement of Governmental Revenue, Expenditures and Changes in Fund Balance /**  
**Statement of Activities**

December 31, 2006

	General Fund Modified Accrual Basis	Adjustments (Note 7)	Statement of Activities
<b>REVENUE</b>			
Property taxes	\$ 381,868	\$ -	\$ 381,868
State aid	11,531	-	11,531
Penal fines	45,578	-	45,578
Interest on investments	25,827	-	25,827
Contributions and grants	59,223	-	59,223
Library fines and fees	4,128	-	4,128
Other miscellaneous	4,612	-	4,612
<b>Total Revenue</b>	<u>532,767</u>	<u>-</u>	<u>532,767</u>
<b>EXPENDITURES</b>			
Salaries and fringe benefits	287,038	-	287,038
Supplies	27,298	-	27,298
Library books, materials, and other	56,292	(56,292)	-
Professional and contractual services	4,500	-	4,500
Conferences, workshops, and travel	7,858	-	7,858
Insurance and bonds	5,503	-	5,503
Health Insurance and dental	10,513	-	10,513
Utilities	24,849	-	24,849
Rent	22,332	-	22,332
Building repair and maintenance	5,192	-	5,192
Capital outlay	49,698	(49,698)	-
Depreciation	-	126,417	126,417
Postage	2,448	-	2,448
Public relations	11,713	-	11,713
Equipment Maintenance	13,142	-	13,142
Dues & administrative fees	7,429	-	7,429
<b>Total Expenditures</b>	<u>535,805</u>	<u>20,427</u>	<u>556,232</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS</b>	(3,038)	(20,427)	(23,465)
<b>FUND BALANCE/NET ASSETS - Beginning of year</b>	<u>305,123</u>	<u>949,776</u>	<u>1,254,899</u>
<b>FUND BALANCE/NET ASSETS - End of year</b>	<u><u>\$ 302,085</u></u>	<u><u>\$ 929,349</u></u>	<u><u>\$ 1,231,434</u></u>

The accompanying notes are an integral part of the financial statements.

**PRESQUE ISLE DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION**

**Definition of the Reporting Entity**

The Presque Isle District Library (the "Library") was established May 19, 1992 pursuant to Act No. 24 of the Public Acts of 1989 (MCL 397.171), known as "The District Library Establishment Act."

The district of the Library consists of the entire geographic area of Presque Isle County. The Library provides library services to the residents of the district and enters into contracts to provide library services to municipalities outside the district, such as Forest and Waverly Townships in Cheboygan County, Michigan.

The Library is governed by a Board, which consists of seven (7) members. The Mayor of the City of Onaway, with the approval of City Council, appoints one board member from the Onaway area for a term of four (4) years. The Presque Isle Township Supervisor, with the approval of the Township Board, appoints one board member from the Grand Lake area for a term of four (4) years. The Posen Township Supervisor, with the approval of the Township Board, appoints one board member from the Posen area for a term of four (4) years. The Presque Isle County Board of Commissioners appoints three (3) board members for term of four (4) years each, two of whom represent the areas of the county without a branch library and one represents the Rogers City area. The Mayor of the City of Rogers City, with the approval of City Council, appoints one board member from the City of Rogers City for a term of four (4) years.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements represent the Library. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

**Basis of Presentation**

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

**Fund Financial Statements**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds, which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded in one fund as follows:

**Governmental Fund:**

**General Fund:** This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America

**PRESQUE ISLE DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

(GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**GASB No. 34**

Effective January 1, 2004 the Library implemented the provisions of GASB Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion on Analysis - for State and Local Governments. Certain significant changes in the statements include the following:

- \* A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- \* Financial statements prepared using full accrual accounting for all of the Library's activities.

These and other changes are reflected in the accompanying financial statements (including Notes to Financial Statements).

**Measurement Focus / Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units.

**Governmental Fund** - The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with maturity of three months or less when acquired.

**Investments**

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

**Current property taxes**

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The December 2005 State equalized valuation of the Library totaled \$904,744,169. The State taxable valuation of the Library totaled \$573,772.943 on which ad valorem taxes levied consisted of .70210 mills raising \$402,846 for operating purposes.

**PRESQUE ISLE DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**Capital Assets**

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and Equipment	5-15 years
Building Improvements	30 years
Library books and materials	3-15 years

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. There were six amendments to the original budget during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The Uniform Budgeting and Accounting Act (PA 2 of 1968, as amended; MCL 141.421 et seq.) provides that expenditures shall not be incurred in excess of the amount appropriated. The Library's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

The Library did not incur any excesses of expenditures over budgeted funds appropriated for the current year.

**Accumulated Fund Deficits**

The Library had no funds with an accumulated fund balance/retained earnings deficit at December 31, 2006.

**NOTE 4 - CASH AND CASH INVESTMENTS**

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Library. The Library's investment policy authorizes the Library Treasurer to invest in the following types of securities:

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.

**PRESQUE ISLE DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Library shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.65 State / 890.15 ISC 9a1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
- i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 2129.111 to 129.118; or
- E. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

At year-end, the carrying amount of the Library's deposits were \$308,323 and the respective bank balance totaled \$318,225.51, of which \$151,778 was covered by Federal Depository Insurance. The difference between the carrying amount of the Library's deposits and the respective bank balance represents checks written during the year but not yet presented for payment. The Library also had \$50 in imprest cash at year-end. All of the Library's deposits were made in accordance with the investment policy.

**NOTE 5 - CHANGES IN GENERAL FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance 1/1/06	Additions	Deletions	Balance 12/31/06
Land and Land Improvements	\$ 14,573	\$ 49,698		\$ 64,271
Building	425,000			425,000
Building Improvements	104,202			104,202
Computers, software, & information sources	72,180	14,423		86,603
Furniture and Equipment	121,045			121,045
Library books and Materials	834,825	41,869		876,694
Total	1,571,825	105,990	-	1,677,815
Accumulated Depreciation	(622,049)	(126,417)	-	(748,466)
Net Book Value	\$ 949,776	\$ (20,427)	\$ -	\$ 929,349

**NOTE 6 - RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees.

The Library's coverage on general liability is \$1,200,000, with a liability limit of \$1,200,000. The Library's coverage on books, audio, video, software and equipment is a blanket replacement cost policy for all locations with a maximum coverage of \$2,400,000 with no individual location limits after a \$1,000 deductible per occurrence. The Library's coverage on public officials is covered by the appointing municipal entity and is not duplicated by the Library. Real estate is insured for replacement value with a current maximum value of \$544,000 for a complete loss. Any liability for losses which exceed these amounts would remain with the Library.

**PRESQUE ISLE DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 7 - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$ 302,085
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Amounts reported in the Statement of Net Assets are different because:

Capital assets are not financial resources, and are not reported in the funds	<u>929,349</u>
---	----------------

Net Assets of General Fund - Full Accrual Basis	<u>\$ 1,231,434</u>
---	---------------------

Net Change in Fund Balances - Modified Accrual Basis	\$ (3,038)
--	------------

Amounts reported in the Statement of Activities are different because:

Capital outlays are reported as expenditures in Statement of Revenue, Expenditures and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as Depreciation:

Computers, software, & information sources	14,423
Library books and materials	41,869
Capital outlay	49,698
Depreciation	<u>(126,417)</u>

Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ (23,465)</u>
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**NOTE 8 - COMPENSATED ABSENCES**

As of October 4, 2006, the Library implemented a sick leave policy for all employees, both full time and part time, accumulated by a rate policy approved by the board. Since the policy was just begun as of October 4, 2006, the accrued accumulated sick leave pay was considered immaterial to the December 31, 2006 audited financial statements and therefore not recorded. It is expected to be material in future years.

**NOTE 9 - PENSION PLAN**

The Library does not provide a pension plan.

**PRESQUE ISLE DISTRICT LIBRARY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISION SCHEDULE**

For the Calendar Year ended December 31, 2006

	Original Budget	Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>REVENUE</b>				
Property taxes	\$ 381,450	\$ 381,868	\$ 381,868	\$ -
State aid	13,900	11,531	11,531	-
Penal fines	50,000	45,578	45,578	-
Interest on investments	13,000	22,493	25,827	3,334
Contributions and grants	22,000	58,823	59,223	400
Library fines and fees	5,000	4,128	4,128	-
Other miscellaneous	38,707	78,384	4,612	(73,772)
Total Revenue	<u>524,057</u>	<u>602,805</u>	<u>532,767</u>	<u>(70,038)</u>
<b>EXPENDITURES</b>				
Salaries and fringe benefits	290,800	287,038	287,038	-
Supplies	20,000	27,302	27,298	4
Library books, materials, and other	51,800	56,292	56,292	-
Professional and contractual services	5,500	4,500	4,500	-
Conferences, workshops, and travel	5,000	7,858	7,858	-
Insurance and bonds	5,670	5,503	5,503	-
Health insurance and dental	7,700	10,513	10,513	-
Utilities	33,500	24,849	24,849	-
Rent	21,150	22,332	22,332	-
Building repair and maintenance	5,800	5,192	5,192	-
Capital outlay	27,916	49,698	49,698	-
Postage	3,150	2,448	2,448	-
Public relations	22,600	11,713	11,713	-
Equipment Maintenance	16,000	13,142	13,142	-
Dues & administrative fees	7,471	7,429	7,429	-
Other	-	66,996	-	66,996
Total Expenditures	<u>524,057</u>	<u>602,805</u>	<u>535,805</u>	<u>67,000</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS</b>	-	-	(3,038)	(3,038)
<b>FUND BALANCE/NET ASSETS - Beginning of year</b>	<u>305,123</u>	<u>305,123</u>	<u>305,123</u>	-
<b>FUND BALANCE/NET ASSETS - End of year</b>	<u>\$ 305,123</u>	<u>\$ 305,123</u>	<u>\$ 302,085</u>	<u>\$ (3,038)</u>

The accompanying notes are an integral part of the financial statements.



Honorable Board Members  
Presque Isle District Library  
Rogers City, Michigan

**LETTER OF COMMENTS & RECOMMENDATIONS**

We are very appreciative for the opportunity not only to bid the audit for the Presque Isle District Library, but also to be of service to your organization.

Our office is submitting an electronic copy of the audited financial statements, as well as this letter of comments and recommendations in PDF format to the State Treasurer's office. The audit should be formally accepted by your board and indicated so in your board minutes.

We conducted our audit of the Financial Statements of the Library in accordance with the auditing standards generally accepted in the United States of America. The following summary explains both our responsibilities and the responsibilities of the management of the Library.

- Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

Materiality plays a very important role to auditors. We place a larger emphasis on items that have a greater chance of having a material error than those in which the possibility of such an error is remote. Materiality defined is, "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that the financial statements are free from material misstatement. Therefore, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implied in the phrase, "in our opinion."

Auditing standards require us to inform you of significant issues encountered in performing the audit. We have no significant issues to report to you at this time. Audit adjustments will be provided to and reviewed with management at a convenient time in the near future.

There are some comments and recommendations we would like to provide in the interest of improving compliance with various state and federal regulations, and also to increase the internal controls of the Library.

## **Comments and Recommendations for the 2006 Audit Only**

### **1. Chart of Accounts**

The Library maintains their computerized accounting system in Quickbooks. The chart of accounts is functional and followed very consistently by the Library's management. However, the requirements of the District Library Establishment Act suggest that the Library follow the accounting rules for Michigan governments by implementing the State Uniform Chart of Accounts.

#### **Recommendation**

We believe that this implementation could be done with the current Quickbooks software, therefore preserving the system already in place. Although there is software on the market that is mass produced simply for this purpose, it is our suggestion that with a small amount of consultation with our in-house Quickbooks Pro Advisor, Shanna Johnson, the Library would save substantial money and yet still meet the requirements of the State of Michigan. This process would involve implementing the new chart of accounts, and then transferring the year to date numbers from each existing account to a corresponding account within the new set up. Providing this could be scheduled at a time convenient for our office, Johnson & Schulze PC would be happy to offer an off-season discounted billing rate to the Library to ensure this process is not only smooth, but falls within your budget. Please note, our recommendation is not that the Library should or must use our firm for the consultation, but instead, we are offering it as a possible solution, as a courtesy.

### **2. Internal Controls**

As we audited the basic financial statements of the Library, an internal control weakness considered to be a reportable condition by the standards of the American Institute of Certified Public Accountants was recognized. Due to a relatively small number of employees involved in the accounting process for the Library, it is very difficult for the Library to maintain a complete separation of duties. It is understood that a complete separation of duties is not realistic with the current staff. It is the Board's decision to determine to what extent it makes financial sense to separate the financial duties, i.e., at what point do the benefits of a stronger internal control outweigh the additional costs. We list this item within our comments and recommendations for the purpose of reminding the Board of the limitations in their internal control system.

We do not believe the internal control structure to be a material weakness and mention it only because it is a required communication of the Statement of Auditing Standards No. 60.

**Acceptance by Board of Audited Financial Statements**

We suggest that the Library board make a formal acceptance of the audited financial statements at the next available opportunity and note such in the minutes.

Lastly, we would like to close by extending our sincere gratitude to the Board for your patronage, as well as your trust in us to provide you with a quality audit on a timely basis. The management of the Library was excellent to work with, providing us with courteous and timely answers to our many inquiries. We are always available should there be any questions, concerns or comments regarding this audit or any other issues that may arise.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kristy Schulze".

Kristy Schulze CPA  
Johnson & Schulze PC